India: Growth likely back to c.8% despite West Asia conflict issues; is it sustainable?

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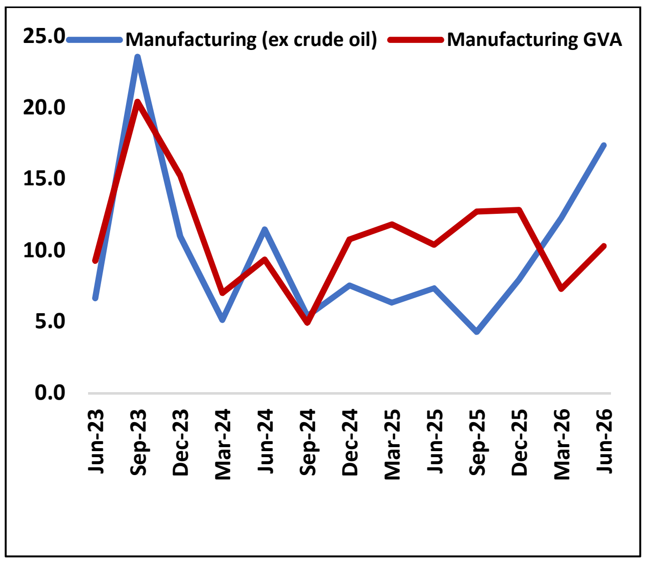
Fig. 1. Table of GDP numbers; % y/y

% y/y	Q1'FY 26	Q2'FY 26	Q3'FY 26	Q4'FY 26	FY26	Q1'FY 27(P)
GDP	6.8%	8.3%	8.0%	7.8%	7.7%	7.9%
GVA	7.1%	8.6%	8.0%	7.9%	7.9%	8.1%
Agri	4.4%	2.7%	1.7%	3.6%	3.0%	2.6%
Industry	7.0%	10.3%	9.5%	7.3%	8.5%	8.4%
Services	8.0%	9.2%	9.9%	9.9%	9.3%	9.8%

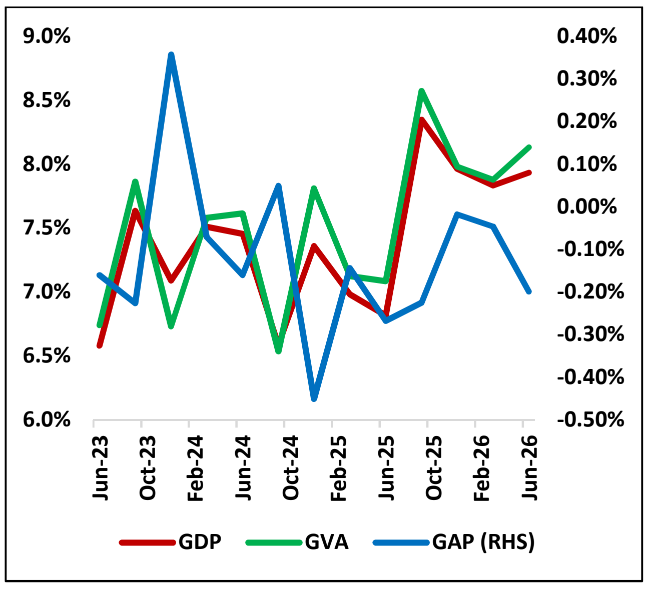
Sources : CEIC & UBI Research

Fig. 2. Q1-FY27 performance of Manufacturing Companies (ex oil & gas sector) signalled a growth pickup; % y/y



Source: CEIC, Ace Equity & UBI research

Fig. 3. GDP-GVA wedge likely widened on lower collection of indirect taxes; % y/y



Sources : CEIC & UBI Research
Note : June'26 GDP / GVA growth numbers in this note are our projections

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GDP for Q1FY27 likely a blockbuster beating all odds: A quarter of +ve surprises

An upswing in GDP growth close to psychological 8% threshold in a quarter laden with impact of geopolitical tensions and spike in oil prices to an average $97/bbl is a positive surprise. The upward pressure on "real" GDP growth despite spike in deflator on elevated inflation pressures (both WPI and CPI) curbing purchasing power is a surprise as well. This is clearly reflected in the trends across high frequency lead indicators which displayed a robust macro picture and a strong start to corporate earnings with Q1-FY27 numbers clocking double-digit growth once adjusted for oil & gas sector. Interestingly, we see GVA, a better indicator of sectoral economic activity, clock 8.1%, a tad higher than 7.9% GDP growth and led by pickup in industry sub-sector even as services and agri GVA growth edged lower.

We see government support as prime growth driver led by with robust spending momentum and gradual passthrough of oil price spike into retail fuel prices for a large part of the quarter. Anecdotal evidence suggests that companies across consumer durables, automobiles, FMCG, cement and paints undertook price increases during the quarter. Despite these hikes, aggregate sales recorded robust growth in Q1FY27, indicating limited impact on consumer demand. This suggests that companies refrained from undertaking steep price hikes, instead resorted to calibrated price increases to partially offset rising input costs while limiting the impact on consumer demand. Additionally, global demand for our exports stayed buoyant with diversification of source destination, though widening in current account deficit during the quarter probably led to a drag from net exports. We also think that capex momentum may have been hit as well due to geopolitical uncertainty. On balance, growth numbers signalled economic resilience during the quarter.

GVA likely edged higher primarily led by industry while services and agri stayed buoyant

- We estimate the GVA growth in Q1FY27 to accelerate to 8.1% as against 7.9% in Q4FY26, led by industry *(ref fig. 1)*. Industrial activity appears to have strengthened meaningfully, while services continue to provide stability.
- Key drivers of sharp growth were the manufacturing and electricity segments *(ref fig. 6)*. This is a surprise for us as June is a seasonally weak quarter. Corporate earnings scorecard for Q1FY27 also signals a sharp pickup as measured by operating profits from previous qtr as well as Q1FY26 (*ref fig. 2 & 8*).
- Agri sector has been the only laggard and expectedly so due to heatwaves and delayed onset of monsoon in the qtr. The sector likely clocked a growth of 2.6% vis-à-vis 3.6% last qtr and 4.4% same qtr last fiscal.
- Services GVA growth stayed buoyant yet moderated to 9.8% from 9.9% last qtr. However, the sector has performed comparatively very well from 8.0% growth clocked in Q1FY26. In the new series, Q1FY27, however, likely posted highest growth number in services sector so far for the June qtr. Financial services, transport, communication and trade activity continue to benefit from resilient consumption, healthy credit growth and strong digital activity (*ref fig. 7*).
- We estimate Q1FY27 GDP growth rate to clock 7.9%, higher than RBI's projection of 7.0%, on back of sustained strength in domestic demand, healthy government capital expenditure and a gradual improvement in rural activity.
- The negative gap between GDP and GVA likely widened in Q1FY27 on account of fall in net indirect tax collections sequentially primarily led by frontloaded subsidy payouts while indirect tax collections lagged. The GDP-GVA gap is seen to have gone up from -05 bps in Q4FY26 to -20 bps in Q1FY27 (*ref fig. 3*).

Industry performance likely the key driver of GVA growth in Q1FY27 even as services GVA stayed buoyant

- Agriculture sector likely posted a lower growth of 2.6% as against 3.6% in last qtr and 4.4% same qtr last year. Going forward, Agri sector would be key to watch out for as the probable impact of rainfall deficiency takes a toll on the growth as well as rural demand numbers.
- Industry was the key driver of spurt in growth led by manufacturing. This is attributed to sharp pickup in earnings results of listed manufacturing companies (ex oil & gas sector) in Q1 with operating profit up by ~17% y/y taking manufacturing GVA growth rate up from 7.3% in Q4FY26 to 9.2% y/y in Q1FY27.
- Construction sector, in our view, slipped from 8.4% last qtr to 7.4% this qtr. mainly due to 7.6% fall in coal production in the qtr.
- Buoyant services sector growth at 9.8% (9.9% in Q4FY26) was likely broad based with higher government spending (capex as well as higher subsidies spend), robust consumption as well as credit & deposit growth.
- GVA ex agri and government i.e. private sector growth has likely gone up to 9.8% in Q1FY27 from 9.4% in Q4FY26.

Is the ~8% growth number sustainable in coming quarters?

High frequency demand indicators *(refer figs.4 (a) & 5)* suggest that consumption gained traction during the June qtr, with the improvement more pronounced in the urban segment. In specific, demand dynamics signal a rural-urban divide *(refer fig.4 (b))*, with greater buoyancy seen in the latter despite global headwinds. However, part of this strength may have been supported by limited passthrough of cost escalation on account of West Asia conflict by corporates, helped by liquidation of existing inventories and the execution of previously accumulated orders, with risk of price hikes in coming quarters. Looking ahead, the demand landscape could become more challenging as the impact of below normal monsoon may weigh upon rural income and consumption, while the pass through of higher input and freight costs arising from the ongoing geopolitical conflict could gradually erode purchasing power and discretionary spending in urban areas.

MPC in its August meeting has revised the Q1FY27 GDP growth upwards from 6.6% to 7.0% and FY27 GDP growth from 6.6% to 6.7% as the underlying growth indicators are looking resilient. With 7.9% growth in sight for Q1FY27, FY27 growth looks promising even though there may be headwinds arising from the above mentioned risk factors. If we assess MPC's growth projections, after pencilling in 7% in Q1, the forecasts ease towards 6% handle in rest of FY27, possibly on a combination of unfavourable base effects and probably considering some impact of El Nino. Additionally, a combination of other factors will play a role too, viz:

- Oil prices, with recent up rise in geopolitical tensions taking them back above $90/bbl, a level not comfortable for our macros.
- Rainfall trends, both spatial and temporal distribution, with August rains lagging after recovery in July. This factor will be the key driver for rural demand dynamics and agri GVA (IMD has downgraded its forecast of below normal monsoon rainfall from 92% of LPA earlier to 90%).
- Residual cost inflation is likely to spill over into Q2FY27 as the full impact of higher input costs continues to work through company cost structures. Consequently, margin pressures may remain persistent in the near term, particularly for sectors with limited pricing power like consumer durables and FMCG.
- Sustainability of global demand with buoyancy seen in exports till now, though wider trade deficit on faster pickup in imports may lead net exports to act as a drag on growth dynamics.
- Some lead indicators like July PMI (both manufacturing and services) slipped to multi year lows on weak orders thereby signalling that growth momentum needs close watch.

Fig.4. (a) UBI Economic Activity Index shows divergence between gva ex agri & public admin and the economic indicators

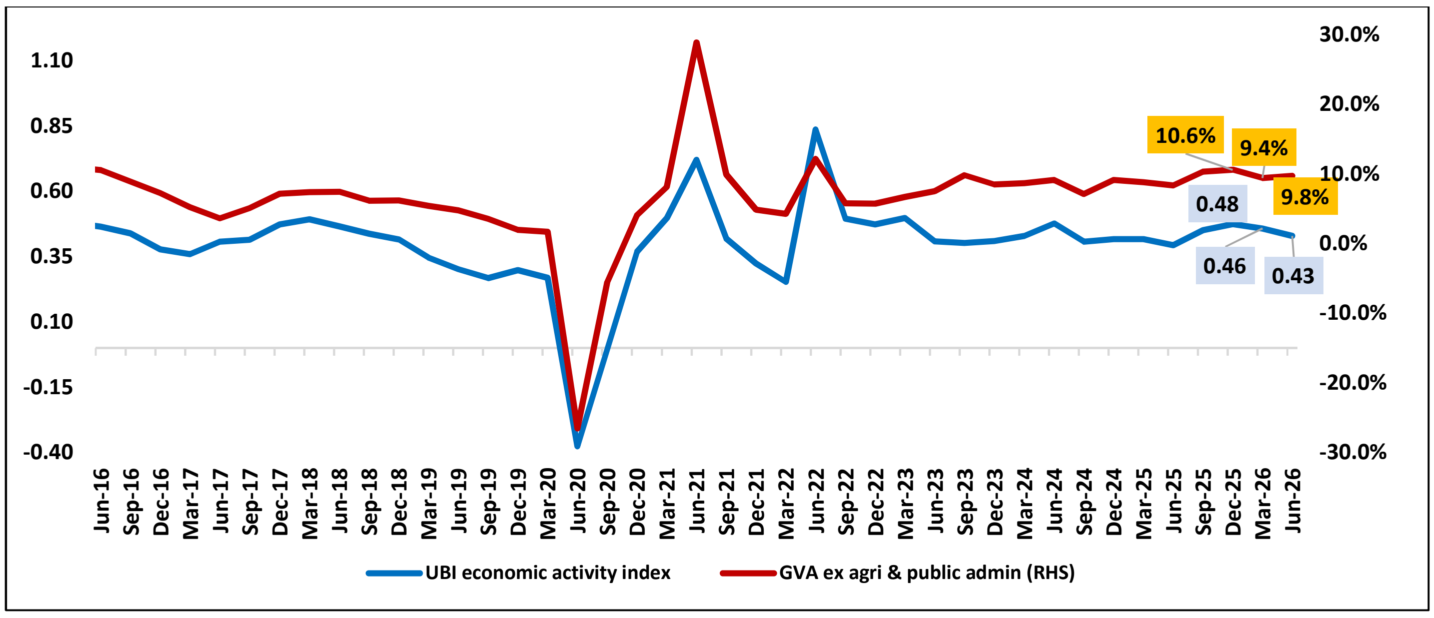
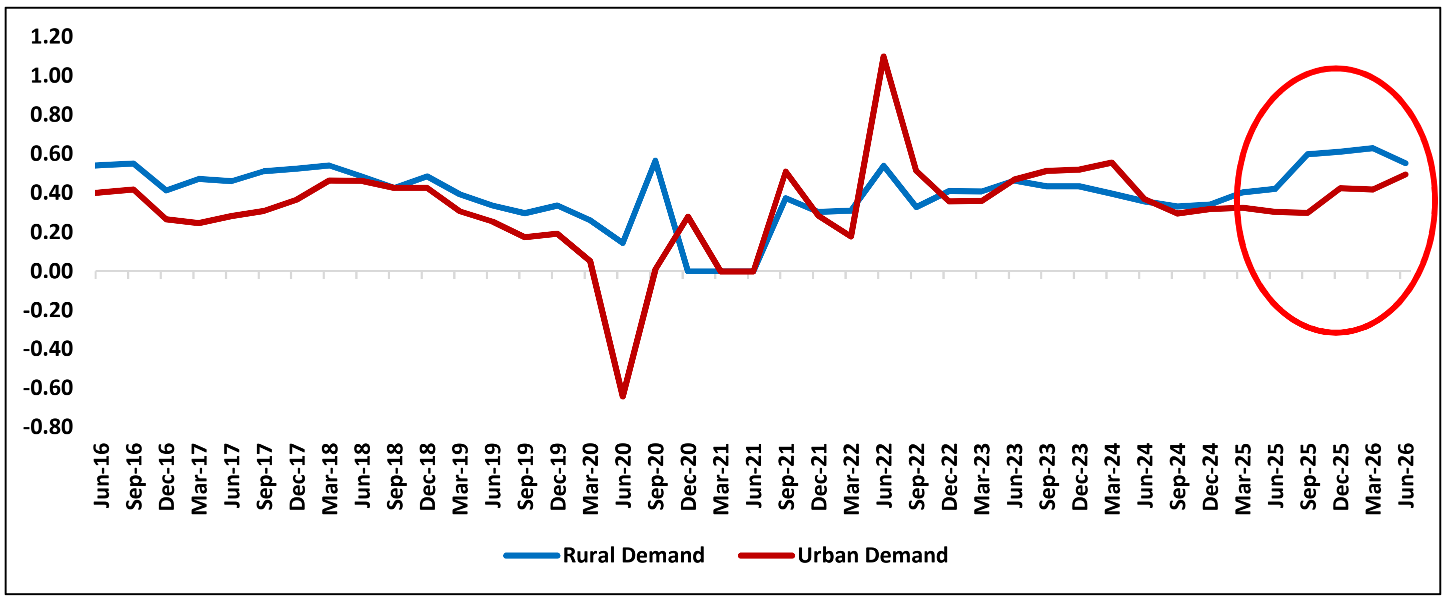


Fig.4. (b) Rural-Urban Demand divergence



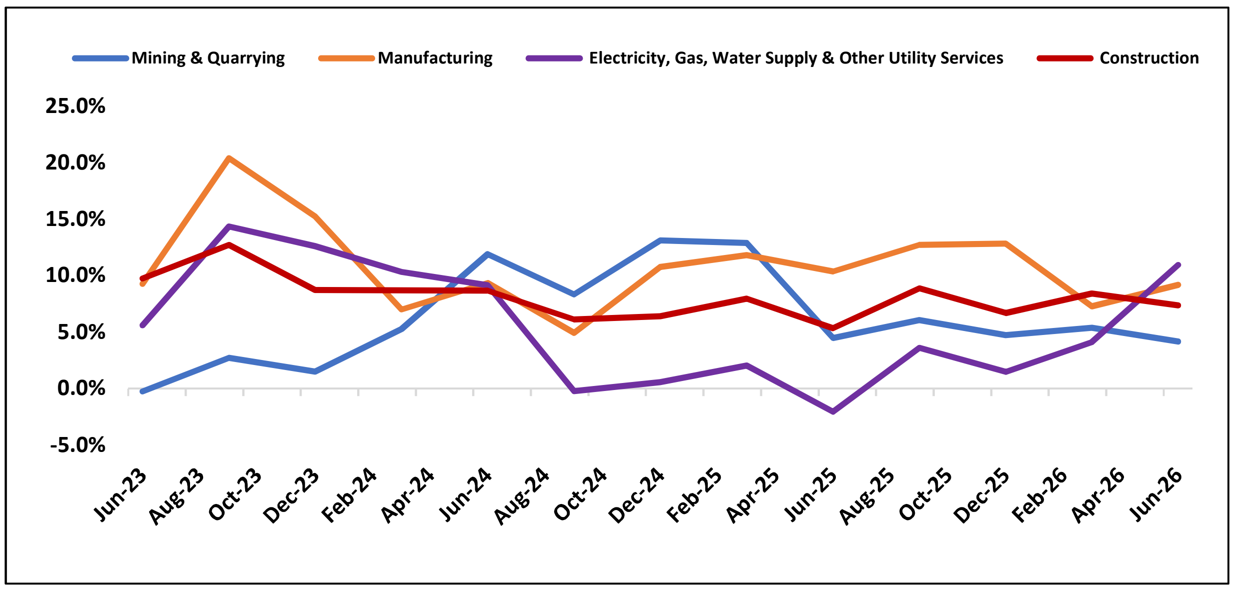
Sources : CEIC & UBI Research

Fig. 5: Heatmap of growth indicators point to mixed trends; % y/y

Sector (%, y/y)	Indicator	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Urban Demand	Passenger Vehicle Sales	4.4%	17.2%	18.7%	26.8%	7.2%	26.1%	21.5%	18.1%	23.2%	28.6%
Rural Demand	Two Wheeler Sales	6.7%	2.1%	21.2%	39.4%	20.8%	25.0%	28.7%	17.2%	7.5%	21.2%
	Tractor Sales	45.4%	14.8%	30.1%	37.1%	43.0%	34.2%	29.1%	26.8%	19.6%	11.9%
Trade, Hotels, Transport, Communications	Commercial Vehicle Sales (Qtrly)	2.7%	21.1%	17.0%	24.6%	15.1%	28.9%	15.1%	18.8%	5.3%	16.9%
	Railway Freight Traffic	3.9%	2.3%	4.2%	3.2%	2.9%	4.0%	3.1%	-1.0%	1.4%	4.0%
	Port cargo Traffic	11.5%	12.0%	14.6%	12.8%	7.6%	3.8%	0.7%	2.4%	6.6%	9.2%
	Domestic Air Cargo Traffic	2.8%	-2.3%	20.5%	4.3%	8.7%	18.5%	10.8%	7.0%	10.7%	9.4%
	International Air Cargo Traffic	2.3%	-2.3%	12.7%	12.6%	8.4%	17.5%	-6.0%	11.6%	10.4%	19.4%
	Domestic Air Passenger Traffic	-2.5%	3.5%	7.0%	-4.9%	3.1%	-0.1%	-1.3%	-2.9%	7.7%	-1.2%
	International Air Passenger Traffic	7.3%	9.7%	7.5%	6.0%	7.1%	3.0%	-18.5%	-16.1%	-9.1%	-4.6%
	GST E-way Bills (Total)	21.0%	8.2%	27.6%	23.5%	15.8%	18.8%	12.9%	11.8%	10.9%	14.5%
	Tourist Arrivals	-9.8%	-5.1%	-2.0%	2.0%	5.2%	6.1%	-1.6%	-14.7%	9.0%	6.6%
Construction	Steel Consumption	8.9%	2.4%	6.0%	5.4%	4.9%	12.8%	13.7%	8.1%	9.4%	7.4%
	Cement Production	5.0%	5.2%	14.6%	13.7%	11.3%	8.9%	4.7%	8.2%	8.4%	9.8%
PMI Index#	Services	60.9	58.9	59.8	58	58.5	58.1	57.5	58.8	59.8	57.4

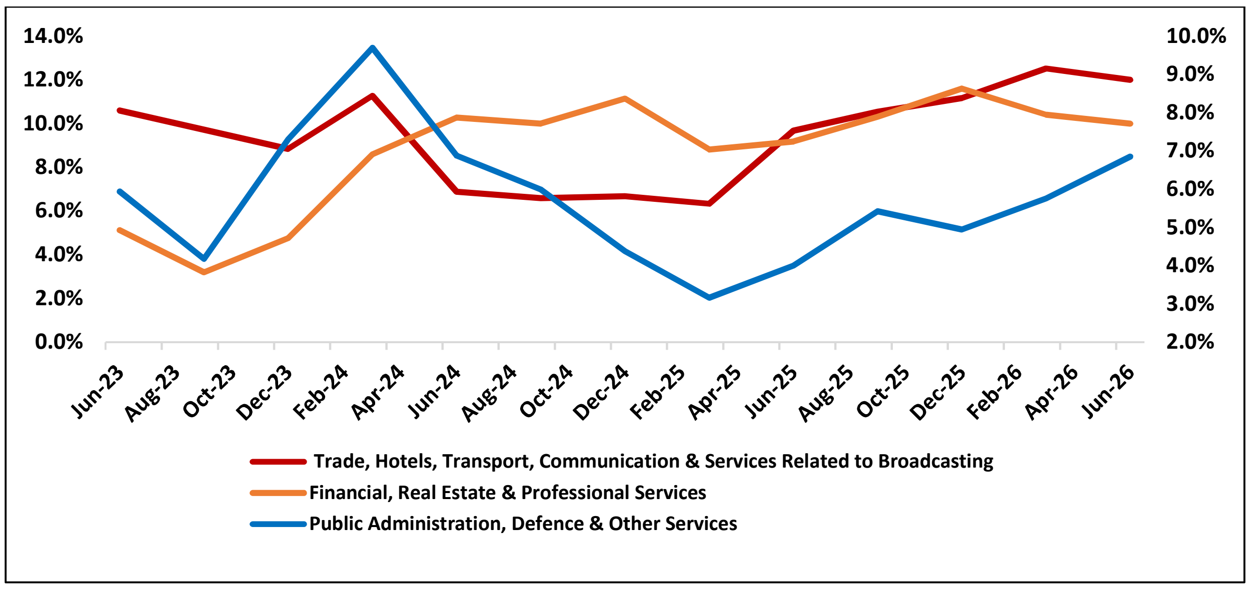
Sources: RBI, CEIC, SIAM & UBI Research

Fig. 6: GVA growth in Q1 FY27 driven by industry, as manufacturing & electricity segments likely shone brighter; % y/y



Sources: CEIC & UBI Research

Fig.7. Amongst services, trade and financial segments saw some moderation while public admin saw a pickup; % y/y



Sources: CEIC & UBI Research

Fig.8.Performance of Manufaturing Companies exhibited a strong start to the financial year

Category	Net Sales Jun-25	Net Sales Mar-26	Net Sales Jun-26	OP Jun-25	OP Mar-26	OP Jun-26	PAT Jun-25	PAT Mar-26	PAT Jun-26
Automobile & Ancillaries	12.3%	23.1%	26.7%	15.1%	17.8%	13.7%	17.6%	20.1%	11.0%
Capital Goods	8.0%	18.2%	24.0%	10.0%	14.8%	28.1%	8.9%	21.4%	28.9%
Chemicals	12.9%	7.6%	14.8%	14.3%	22.5%	27.8%	22.1%	-20.0%	33.0%
Construction Materials	10.9%	10.9%	11.0%	32.8%	-2.1%	-1.0%	39.0%	13.8%	-0.7%
Consumer Durables	-3.2%	4.8%	16.3%	-8.4%	-2.4%	46.1%	-16.1%	-108.4%	68.6%
Crude Oil	-3.2%	5.9%	30.8%	34.0%	16.1%	-41.1%	73.7%	9.4%	-59.4%
Diamond & Jewellery	21.9%	53.3%	42.6%	34.9%	39.5%	44.5%	28.7%	56.3%	54.1%
Electricals	22.8%	27.6%	41.5%	56.3%	28.2%	49.4%	74.9%	29.4%	58.5%
FMCG	10.6%	15.4%	17.9%	2.6%	12.4%	-2.5%	5.4%	19.1%	-6.6%
Healthcare	14.6%	1.3%	10.5%	4.2%	-8.6%	0.7%	-11.6%	-16.6%	0.7%
Infrastructure	5.8%	5.5%	8.0%	0.5%	12.6%	20.4%	5.6%	-5.2%	29.4%
Iron & Steel	-1.1%	9.9%	12.4%	14.1%	18.9%	17.9%	29.5%	21.6%	19.1%
Logistics	0.8%	14.8%	22.3%	-4.1%	3.6%	53.7%	-11.9%	19.7%	108.8%
Metals	-16.2%	35.7%	39.5%	-21.1%	44.1%	80.0%	11.8%	88.9%	54.7%
Paper	7.7%	14.5%	14.8%	-5.7%	30.8%	36.1%	-6.3%	74.3%	51.7%
Plastic Products	5.3%	12.0%	8.9%	-6.1%	33.8%	23.2%	-41.1%	39.2%	28.9%
Power	-2.7%	-3.2%	8.8%	-8.3%	2.1%	12.1%	-19.0%	110.0%	22.9%
Telecom	8.5%	5.2%	9.6%	12.9%	10.4%	13.2%	-14.9%	1330.7%	-316.8%
Textile	5.6%	5.0%	7.7%	10.7%	5.8%	31.9%	30.3%	-6.4%	103.9%
Trading	1.9%	34.6%	37.7%	-0.4%	36.8%	82.4%	28.0%	-73.3%	-79.5%
Total Manufacturing	**4.2%**	**9.4%**	**17.8%**	**12.8%**	**8.2%**	**7.2%**	**12.9%**	**31.3%**	**9.7%**
Manufacturing (ex crude)	**5.8%**	**13.2%**	**17.9%**	**7.4%**	**12.3%**	**17.3%**	**11.7%**	**26.7%**	**19.2%**

Source: CEIC, Ace Equity, UBI Research

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